

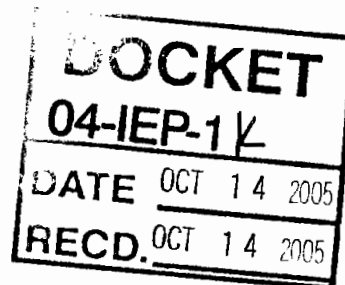


CALPINE

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October 14, 2005

California Energy Commission
Re: Docket No. 04 IEP 1K
Docket Unit, MS-4
1516 Ninth Street
Sacramento, CA 95814-5512



In the Matter of:

)
) Docket No. 04 IEP 1K
)

Preparation of the 2005 **Integrated
Energy Policy Report (IEPR)**

) Notice of Committee Hearings and
) Availability of the Committee
) Draft Energy Report
)

Dear Energy Commissioners and Staff:

Calpine Corporation ("Calpine") appreciates the opportunity to submit the following comments regarding the 2005 Committee Draft Energy Report.¹ Calpine's comments are as follows:

Chapter 3: Electricity Needs and Electric Procurement Policy

Electric Supplies

The report notes that: "The development of new energy supplies is not keeping up with the States increasing demands. Construction of new power plants has lagged and the number of new plants applying for permits has decreased." (Page E-1) Calpine strongly agrees with these conclusions and the point that the state needs to move forward with assuring that needed investment is made in the power generation capacity of the state. This investment is now lagging and action needs to be taken by the state to get new generation built and to properly compensate needed existing generation. The report should note that one of the reasons that new supplies are not being built is because recently built plants (i.e. Metcalf and Pastoria) have not been able to obtain contracts or market prices that reflect the value these new plants provide. This lack of a fair opportunity to be rewarded for the risk of building into the California market is the major impediment to developers and investors committing additional funds for new California generation. The report should recommend that the CPUC require contracts of these newer plants.

¹ The Energy Commission's September 15, 2005 Notice of Committee Hearings and Availability of the 2005 Committee Draft Energy Report requested comments by interested parties by October 14, 2005.

Electric Procurement

The report notes "The Energy Commission recommends that the California Public Utilities Commission require utility long term procurement that will cover the annual "net short" and allow for the orderly retirement/repowering by 2012 of the aging power plants." (Page E- 3) Calpine strongly agrees with this recommendation. This required procurement should include recently built plants (e.g., Metcalf and Pastoria Energy Centers) as well as for building additional new plants. In order to properly signal developers and investors to build in California, it must be clear that those who have taken the risk to add major new needed supplies to California must have a fair opportunity to be compensated for the value they provide. The current mitigated energy market does not provide that opportunity, so contracts are required.

Confidentiality

The report notes "The utility procurement process needs to be more open and transparent for all parties. The States investor owned utilities continue to assert that much of the data used in resource planning is confidential. However the Energy Commission has concluded that there are significant benefits from rigorous public scrutiny of and debate about the data and planning assumptions that form the basis of the CPUC's decisions on resource procurement". (Page E- 3) Calpine strongly agrees with the Energy Commission. It is essential that this information, which forms the basis for California electric supply actions, be open, transparent and subject to public debate.

Chapter 6: Renewable Resources for Electricity Generation

Recommendations to Simplify RPS Administration

Calpine agrees with the report's finding that one of the primary problems with the RPS program is its administrative complexity. Calpine supports the report's recommendations to streamline the RPS program (Page 93), and would like to have an additional recommendation added to the list. That is that the eligibility restrictions on existing geothermal facilities, and perhaps other technologies, add to the complexity and administrative burden of the RPS program and should be eliminated. At the very least, the Energy Commission should hold a workshop that examines the eligibility restrictions for renewable facilities' participation in the RPS to determine if the restrictions serve a public policy purpose, and if not, to recommend and implement changes.

The Energy Commission's Renewable Portfolio Standard Eligibility Guidebook places RPS eligibility limitations on existing geothermal, small hydroelectric, and municipal solid waste facilities that reflect an interpretation of Section 399.12(a)(1) of the Public Utilities Code. Calpine's Geysers geothermal facilities in Sonoma and Lake counties are impacted by the restrictions on existing

geothermal facilities. Under the current rules, purchases from existing pre-1996 geothermal generation can only adjust a load-serving entity's baseline quantity of renewable energy. However, if a portion of that generation is certified as "incremental", it then qualifies for the full RPS in that it can satisfy a load-serving entity's 1% incremental procurement requirement.

Calpine submitted an application for "incremental" certification in the spring of 2005 that took almost 6 months to resolve. Calpine believes that this "incremental" certification process places an unnecessary administrative burden on both the applicant and Energy Commission staff, and that the eligibility restriction serves no public policy purpose. The report should recommend that the eligibility restriction on existing geothermal facilities be eliminated, either by new legislation, or preferably by administrative action.

Chapter 7: The Challenges and Possibilities of Natural Gas

The Need for LNG

The report notes "California needs to diversify its natural gas sources and seek additional natural gas supplies from more cost-competitive and reliable sources. LNG has that potential." (Page 114) Calpine strongly supports these points and feels that the Energy Commission should go further and recommend that the state work diligently to assure that California has at least one LNG import facility in operation by 2010. It is essential to the state's economy that California develop the capability to import LNG in a timely fashion and that this sense of urgency be balanced with the state's diligent review of projects to assure that they are safe and environmentally sound.

Chapters 4 and 9: Climate Change Policies:

Calpine supports the climate change goals announced by Governor Schwarzenegger on June 6th, 2005, and looks forward to working with the Energy Commission and other agencies to help craft policies to achieve these goals.

One of the most crucial steps in meeting the Governor's goals is to ensure that California does not reduce its greenhouse gas emissions merely by exporting its carbon dioxide and other pollutants elsewhere. This is particularly important in the electric power sector, where imported power is already a major source of California's carbon dioxide emissions, totaling 67 million tons annually. For that reason, Calpine supports the Energy Commission's proposed greenhouse gas performance standard (Page 71) and believes that it is an excellent start toward helping achieve the Governor's goals. The standard should be clarified to state that it would apply to all future baseload power procurement, including both in-state generation and imported power.

To address one of the questions raised by Chairman Desmond in his September 22, 2005 memorandum on the IEPR Greenhouse Gas Performance Standard,

Calpine believes that the Energy Commission should adopt the performance standard without any offset provisions, since such offsets could severely undermine the effectiveness of the standard. Instead, carbon offsets should be considered in the context of a future cap and trade program, such as currently under review by the California Environmental Protection Agency.

Finally, while not recommended in the draft IEPR, Calpine would like to address one of the comments made by PacifiCorp at the October 6, 2005 hearing that pertained to climate policies adopted in Oregon and Washington. Calpine would strongly oppose California adopting any climate policies that reflect the same approach as those adopted in Oregon and Washington. In those states, only new and in-state power sources are subject to carbon mitigation rules, which require them to essentially pay a carbon tax. Such policies are counterproductive because they send exactly the wrong signals that are needed to move quickly to a lower carbon power future. This policy penalizes cleaner new generation and provides a huge competitive advantage for older and higher emitting generation.

Thank you for considering Calpine's comments. Please contact me if you have any questions regarding these issues.

Sincerely,

A handwritten signature in black ink, appearing to read "Jack Pigott", with a stylized flourish at the end.

Jack Pigott
Director, Renewable Affairs
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